

GAO

Report to the Chairman, Committee on  
Governmental Affairs, U.S. Senate

March 1992

# TAX SYSTEMS MODERNIZATION

## IRS Could Have ~~Avoided Successful~~ Protests of Major Computer Procurement



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Information Management and  
Technology Division

B-247161

March 13, 1992

The Honorable John Glenn  
Chairman, Committee on  
Governmental Affairs  
United States Senate

Dear Mr. Chairman:

In June 1991, we testified before your Committee that the Internal Revenue Service's (IRS) ability to direct and control its procurement activities is critically important to the success of its Tax Systems Modernization (TSM) program.<sup>1</sup> We also indicated that, so far, IRS has lacked this ability and some of its recent procurements have run into trouble.

This report responds to your request that we review one of these troubled procurements—the Treasury Multi-User Acquisition Contract (TMAC). This contract was awarded to AT&T in July 1991 for \$1.4 billion, but was later successfully protested by two vendors—IBM and Lockheed. These protests have added to the delays already encountered in conducting this procurement.

You asked us to determine what IRS (1) did to cause the protests, (2) could have done to avoid the successful protests, and (3) needs to do to prevent similar successful protests of future TSM procurements. Our objectives, scope, and methodology are detailed in appendix I.

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## Results in Brief

The TMAC procurement was successfully protested because IRS did not adequately justify awarding this contract to AT&T. Although AT&T's \$1.4 billion proposal was found to be technically superior, the other vendors' proposals were priced between \$500 million and \$700 million lower than AT&T's. IRS failed to demonstrate that it is worth paying over one-half billion dollars more for this technical superiority.

To avoid the successful protests by IBM and Lockheed, IRS should have done a better price/technical tradeoff analysis. IRS' Source Evaluation Board, which oversaw the TMAC acquisition process and recommended that AT&T get the award, did not do an adequate tradeoff analysis to determine whether any offer was worth its cost in relation to the other offers.

<sup>1</sup>Tax System Modernization: Attention To Critical Issues Can Bring Success, (GAO/T-IMTEC-91-8, June 25, 1991).

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Moreover, IRS missed two opportunities to ensure a better analysis. First, it did not give any specific guidance to the Source Evaluation Board on the methodologies and criteria to be used in analyzing proposals where (1) technical excellence is an important evaluation factor and (2) award is made to other than the lowest bidder. Specific guidelines would have given the Source Evaluation Board a better idea of how to do an acceptable analysis. Second, IRS did not revise its analysis after it received advance review comments from the Department of the Treasury questioning the validity of its price/technical tradeoff analysis.

To avoid similar successful protests on future TSM procurements, IRS needs to include specific methodologies and criteria for conducting price/technical tradeoff analyses in its procurement guidelines. These guidelines need to be made an integral part of planning documents associated with all TSM procurements.

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## Background

During 1990, IRS' computer systems for administering income taxes accounted for over \$1.1 trillion in revenue to the Treasury and processed over 200 million taxpayer returns along with one billion other documents, such as annual wage and tax statements (Forms W-2). However, these systems use outmoded 1950s technology. As a result, they are inefficient, costly, unresponsive, and unnecessarily burdensome on taxpayers. IRS is making its third attempt in 25 years to modernize these systems. This attempt is known as TSM. According to IRS, TSM will cost about \$8 billion through 2008. Because of earlier failures at modernization and the poor condition of IRS' antiquated systems, the IRS Commissioner has stated that TSM cannot be postponed.

Procurement plays a vital role in the TSM program. However, as we pointed out in our June 25, 1991, testimony, IRS has lacked the ability in the past to properly direct and control its procurement activities. We noted that both internal and external reviews have criticized IRS procurement efforts and IRS was reporting its procurement system as a material internal control weakness under the Federal Managers' Financial Integrity Act.

TMAC is a 1-year contract, with annual renewal options for up to 6 years, to provide up to 3,200 minicomputers, 50,000 work stations, printers, networking hardware and software, an integrated office automation system, and computer maintenance and support. The contract is critically important to the TSM program; most of the items under this contract will be used for certain TSM projects, some of which are already underway.

The TMAC procurement process took much longer than expected. When IRS released the request for proposals in January 1989, the agency anticipated that contract award would occur in January 1990. The award date was delayed primarily because of the time IRS needed to respond to vendors' questions, most of which involved clarification of IRS' requirements. In addition, according to IRS officials, the award date was also delayed due to the time necessary to obtain proof that hardware, software and communication items contained in vendors' proposals were commercially available. By the time IRS' Source Evaluation Board convened in May 1991 to begin evaluating the final proposals, the agency was already 16 months late in awarding the contract.<sup>2</sup>

In recommending that AT&T be awarded the contract, the Source Evaluation Board drew upon reports prepared by a technical evaluation panel and a business management evaluation panel, as well as its own analysis of the competing proposals.<sup>3</sup> IRS adopted the Source Evaluation Board's recommendation and, on July 15, 1991, awarded the contract to AT&T.

## IRS Did Not Adequately Justify Its Selection of AT&T

The TMAC procurement was successfully protested because IRS failed to adequately justify choosing AT&T. The April 1991 technical evaluation panel report showed that AT&T offered the outstanding technical solution. Because the price difference was so great between AT&T's and the other vendors' proposals, the Source Evaluation Board prepared a price/technical tradeoff analysis to determine which proposal offered the best value to the government. The Board considered five value categories (flexibility, productivity, availability, training, and staffing) and found that the AT&T offer was superior in all five. The Board therefore concluded that AT&T should be awarded TMAC.

Lockheed and IBM protested the award, alleging that IRS (1) made an irrational price/technical tradeoff analysis, (2) did not follow the evaluation scheme set forth in the request for proposals, and (3) misevaluated protesters' proposals. The General Services Administration Board of Contract Appeals (GSBCA), in its September 25, 1991, decision, agreed that

<sup>2</sup>The Source Evaluation Board consisted of the following IRS officials: the Chief Information Officer; Assistant Commissioner (Information Systems Management); Director, Office of Examination Programs; and Assistant Director, Contracts and Acquisition Division.

<sup>3</sup>The technical evaluation panel was responsible for developing the statement of work and evaluation criteria, and for reviewing technical proposals. The business management evaluation panel reviewed business aspects of the request for proposals' statement of work, and offerors' proposals.

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the analysis was flawed because it did not address the price differential, and therefore the analysis "had no value." Specifically, the GSBCA stated that the price/technical tradeoff analysis did not measure the benefits the government would receive from the different offerors; distorted the evaluation criteria by placing more emphasis on technical features than allowed by the request for proposals; and, as a result, did not measure whether any offer was worth its cost in relation to the others.

The GSBCA then directed IRS to (1) prepare a suitable price/technical tradeoff analysis that would comply with the request for proposals and either confirm the previous award or make a new selection, or (2) amend the request for proposals to provide a clear statement of its intention to emphasize technical features over cost to the degree it believed necessary.

On October 25, 1991, in response to IRS' request for reconsideration, GSBCA sustained its decision. IRS has since hired a contractor to provide assistance and guidance in preparing another price/technical tradeoff analysis. A new Source Evaluation Board then will make its award recommendation.<sup>4</sup> IRS hopes to complete the analysis and make a final decision by March 31, 1992.

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## IRS Could Have Prepared a Better Price/Technical Tradeoff Analysis

IRS could have prepared a better price/technical tradeoff analysis of the vendors' proposals, thereby potentially avoiding the successful protests. However, IRS missed two opportunities to ensure a better analysis.

First, IRS contracting officials responsible for the request for proposals and source selection plan did not give the Source Evaluation Board any specific guidance on what methodologies and criteria to use in analyzing large price differences among the offers. For example, the request for proposals contained evaluation criteria which stated that the contract would go to the offeror whose proposal contained the combination of technical, management and support, and cost features that offered the best value to the government. It cautioned that the government would not make an award at a significantly higher price to achieve slightly superior technical features. The solicitation also noted that differences between technical features and overall cost to the government would be compared, but did not specify how this would be done. Technical features and management

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<sup>4</sup>The new Source Evaluation Board consists of the TSM Program Manager; Assistant Commissioner (Information Systems Management); Director, Office of Information Resources Management, Department of Treasury; and Assistant Commissioner (Procurement).

and support features were each assigned 100 evaluation points; no points were assigned for cost features.

Also, IRS source selection plans are intended to help analyze vendor proposals by providing guidance, such as the types of evaluations needed and the methodologies and techniques to be followed. However, the source selection plan for the TMAC procurement did not state what methodologies or criteria were to be used in comparing technical, management and support, and cost features.

Therefore, neither the request for proposals nor the source selection plan provided the Source Evaluation Board with any methodology for comparing costs with technical features. Instead, the Board was left to its own judgment in making this comparison. Source Evaluation Board members, working with the information they received from the technical evaluation panel and business management evaluation panel that strongly suggested AT&T's technical superiority, decided they would need to determine whether AT&T's technical superiority was worth paying over one-half billion dollars more. In the absence of specific guidance, they relied on their experiences with other procurement analyses. They ultimately did an analysis they believed was adequate. However, IRS officials told us that considering GSBICA's decision, better guidance, including appropriate methodologies and criteria, might have enabled them to (1) avoid successful protests by having a better price/technical tradeoff analysis and (2) recognize that additional guidelines would be helpful in conducting future price/technical tradeoff analyses.

Second, IRS did not improve the price/technical tradeoff analysis as recommended by the Department of Treasury. Because of the size of the TMAC procurement, Treasury regulations required IRS to obtain Treasury review and concurrence before awarding the contract. In written comments to IRS dated July 9, 1991, Treasury stated that while the AT&T offer resulted in the superior technical proposal in most areas, IRS needed to reaffirm that the award to AT&T provided the best value to the government. Specifically, Treasury requested stronger analysis to support the award.

Although Treasury's comments stated that the deficiencies it noted should be corrected as a condition of Treasury's concurrence, it nevertheless went ahead and concurred with the award. Treasury did not require a written response on how IRS corrected or planned to correct these deficiencies.



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Since Treasury concurred with the award, IRS made no changes to the Source Evaluation Board's price/technical tradeoff analysis. In a letter sent to Treasury after contract award, IRS stated that it considered the analysis used to achieve best value as being appropriate. IRS offered no substantive arguments to support this position.

Treasury procurement officials recognize that they need to be more specific in telling IRS and other Treasury bureaus exactly what is required in responding to Treasury comments. Accordingly, they have drafted revised procurement instructions clarifying the required action to be taken with respect to review comments. For example, the draft instructions require each Treasury comment to be labeled so that contracting officials will clearly know which corrections are mandatory and which are discretionary.

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## Conclusions

The TMAC procurement shows that IRS needs to improve how it directs and controls its procurement activities. Because IRS did not show that it had made a proper price/technical tradeoff, the award was successfully protested. As a result, a procurement that was already behind schedule has been delayed again. IRS now is retracing its steps and preparing a more convincing price/technical tradeoff analysis on which to base its award of this contract.

More important, however, is the impact of this delay on the \$8 billion TSM program. TMAC is one of several procurements that are critical to TSM. Without TMAC, IRS will lack the minicomputers, work stations, and other hardware and software items needed to move forward with the program. Until IRS significantly improves its ability to direct and control its future procurement activities, TSM will be vulnerable to further delays.

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## Recommendation to the Commissioner of Internal Revenue

To help avoid similar successful protests of future TSM procurements, we recommend that the Commissioner of Internal Revenue develop guidelines—including appropriate methodologies and criteria—to be used in making price/technical tradeoff analyses, and require that these guidelines be made an integral part of the planning documents for all such procurements.

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## Agency Comments and Our Evaluation

On February 3, 1992, IRS provided us with written comments on a draft of this report. IRS agreed with our recommendation that guidelines should be developed for future use in making price/technical tradeoff analyses. The agency also stated that it expects the price/technical tradeoff analysis currently being conducted for the TMAC procurement may well serve as a model for developing these guidelines. These actions should help prevent successful protests of this kind in the future.

Although IRS agreed with our recommendation, it did not agree with our finding that the agency could have prepared a better price/technical tradeoff analysis. IRS contends that there are no specific federal guidelines for agencies to follow in preparing such an analysis, and that in the absence of such guidelines it followed what it believes was a reasonable approach in preparing its analysis. However, we agree with GSBGA that IRS' analysis was inadequate, and believe the absence of specific guidelines should not have precluded IRS from preparing its own. The size of the planned TMAC procurement and the emphasis on technical merits should have alerted the agency to the fact that such guidelines may be needed. Detailed IRS comments and our evaluation are contained in appendix II.

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We performed our review between October 1991 and February 1992, in accordance with generally accepted government auditing standards. As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the date of this letter. We will then send copies to the Secretary of the Treasury; the Commissioner of Internal Revenue; the Director, Office of Management and Budget; and interested congressional committees. Copies will also be made available to others upon request. This report was prepared under the direction of Howard G. Rhile, Director, General Government Information Systems, who can be reached at (202) 336-6418. Other major contributors are listed in appendix III.

Sincerely yours,



Ralph V. Carlone  
Assistant Comptroller General



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## Abbreviations

GAO	General Accounting Office
GSBCA	General Services Administration Board of Contract Appeals
IMTEC	Information Management and Technology Division
IRS	Internal Revenue Service
TMAC	Treasury Multi-User Acquisition Contract
TSM	Tax Systems Modernization



# Objectives, Scope, and Methodology

In response to a request by the Chairman, Senate Committee on Governmental Affairs, we reviewed IRS' Treasury Multi-User Acquisition Contract (TMAC) procurement to determine what IRS (1) did to cause the protests, (2) could have done to avoid the successful protests, and (3) needs to do to prevent similar successful protests of future TSM procurements. We reviewed IRS, Treasury, and General Services Administration Board of Contract Appeals (GSBCA) documentation, including evaluation criteria, procedures and plans used to evaluate proposals, agency review procedures, review comments, minutes of meetings, and correspondence. We also reviewed the protest file, known as the "Rule 4 file." In addition, we interviewed IRS and Treasury officials to obtain information on the evaluation and review process of the TMAC procurement.

We performed our work at the Department of the Treasury, General Services Administration, and IRS headquarters in Washington, D.C., as well as IRS offices in Falls Church, Virginia.

# Comments From the Internal Revenue Service

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

DEPUTY COMMISSIONER

FEB - 3

Mr. Ralph V. Carlone  
Assistant Comptroller General  
United States General Accounting Office  
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Dear Mr. Carlone:


Thank you for the opportunity to review the draft report entitled "Tax Systems Modernization: IRS Could Have Avoided Successful Protests of Major Computer Procurement" (IMTEC-92-27). While we do not fully agree with GAO's findings, we agree with the report's recommendation to develop guidelines to be used in making price/technical tradeoff analyses that will be included as part of the planning documents for procurements. Our comments on other aspects of the report are enclosed.

While we agree that additional guidelines on conducting price/technical tradeoff analyses are needed, we have not found any agency that has issued specific guidelines on conducting price/technical tradeoff analyses. We expect our "lessons learned" from the Treasury Multi-User Acquisition Contract (TMAC) will result in the issuance of guidelines for conducting future tradeoff analyses in a successful manner.

We agree that one of the important elements for completing Tax Systems Modernization is a highly effective procurement organization. For example, the IRS elevated its procurement program from a division level to the level of an Assistant Commissioner. It selected experienced procurement professionals for the positions of Assistant Commissioner and Deputy Assistant Commissioner. It has also increased its procurement staffing and has attracted numerous qualified and experienced procurement professionals from other agencies. The IRS continues to improve its procurement organization as evidenced by our twenty-one successfully completed competitive contract awards for federal information processing resources in excess of one million dollars since October 1990. We look for more improvements in the future. We appreciate your underscoring the importance TMAC holds to a successful Tax Systems Modernization program.

Best regards,

Sincerely,

  
Michael J. Murphy  
Deputy Commissioner

Enclosure

RESPONSE TO GAO DRAFT REPORT ON  
"TAX SYSTEMS MODERNIZATION: IRS COULD HAVE  
AVOIDED SUCCESSFUL PROTESTS OF MAJOR COMPUTER PROCUREMENT"

The subject report finds:

1. That the IRS could have avoided successful protests of the Treasury Multi-User Acquisition Contract (TMAC) if an adequate price/technical tradeoff analysis had been conducted;
2. That the IRS missed two opportunities to ensure a better analysis in that:
  - a. IRS contracting officials failed to give specific guidance on the methodologies and criteria to use in analyzing large price differences between offerors, and,
  - b. IRS did not act on a Department of the Treasury (Treasury) recommendation to improve the price/technical tradeoff analysis.
3. That until IRS significantly improves its ability to direct and control its future procurement activities, TSM will be at risk of failure.

The IRS response to the subject draft report addresses the following three issues:

A. The Conduct of the Price/Technical Tradeoff Analysis

The IRS disagrees with the GAO's findings. At the center of the issue on TMAC is the GSBICA's conclusion that the IRS did not conduct an adequate price/technical tradeoff analysis. In other words, the IRS did not explain to the GSBICA's satisfaction why the technically superior AT&T proposal was worth the price differential between it and the other offers.

There are no specific guidelines or "cookbook" within the Federal Acquisition Regulation (FAR) or Federal Information Resources Management Regulations (FIRMR) for agencies to follow on how to conduct a price/technical tradeoff analysis. Prior to the TMAC decision, General Accounting Office (GAO) and General Services Administration Board of Contract Appeal (GSBICA) case law indicated that award to a higher-priced, higher-technically-rated offeror is proper when the decision is reasonable and consistent with the evaluation criteria. On TMAC, the IRS made a comprehensive analysis of both subjective and objective factors that constituted a price/technical tradeoff. As part of the objective factors, IRS conducted two separate analyses, termed "Method A" and "Method B", to consider the price/technical tradeoff using two different sets of assumptions. The results of the analyses were reviewed by the IRS' Internal Audit Division

See comment 1.

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and by IRS' General Legal Services (GLS). Also, the Department of the Treasury, in their review of the procurement, concurred with Method B as an acceptable approach and raised questions with Method A. The GSBICA found both methods to be inadequate and gave the IRS the option to conduct an adequate price/technical tradeoff analysis.

In addition, page 10 of the GAO report states, "Source Evaluation Board contend that better guidance, including appropriate methodologies and criteria, could have enabled them to avoid successful protests by having a better price/technical tradeoff analysis." Members of the Source Evaluation Board did not make this statement to the GAO team. Based on existing case law at the time they were making the price/technical tradeoff analysis, Source Evaluation Board members believed they were proceeding appropriately. In light of the TMAC decision, however, it is recognized that additional guidelines would be helpful to demonstrate to others that a sound business decision was made and how it was made.

B. The Treasury Review Process as it Related to TMAC

At the time TMAC was awarded, Treasury Procurement Regulations required that all contracts estimated to exceed \$1 million be reviewed and concurred in by Treasury's Office of Procurement. Moreover, the Treasury Procurement Regulations required that on contracts in excess of \$1 million, the Treasury Procurement Executive sign on the face page of the contract as an indication of his approval.

The proposed contract to AT&T was submitted to the Treasury's Office of Procurement on July 1, 1991. The contract was reviewed and concurred in by a memorandum signed by the Treasury Procurement Executive on July 9, 1991, which states that, "We concur in the award of the proposed procurement action, only after the deficiencies noted in the attached comments have been corrected." The Procurement Executive did not require the IRS to respond to the comments as he could have by checking the appropriate box. More importantly, he also signed the face page of the contract indicating his approval. Having received the Treasury comments, the IRS delayed making the award until July 15, 1991, in order to ensure that the comments had been satisfactorily addressed. The IRS reviewed each comment and provided a written response to Treasury which clarified each issue. This response is documented in the contract file.

As expected, during the GSBICA protest process, the Department of the Treasury comments were thoroughly discussed and analyzed. There were 18 substantive (not administrative) comments in the Treasury report. Of these 18, neither the protesters nor the GSBICA raised or addressed nine of the

See comment 2.

See comment 3.



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comments. Of the nine that were raised by the protesters, the GSBGA initially disagreed with Treasury and the protesters on five of the comments and agreed with Treasury and the protesters on four of the comments. Later, however, in a Motion for Reconsideration, the GSBGA corrected itself on one issue thereby concurring with the IRS. In summary, of the nine substantive Treasury comments raised during the protest process, the GSBGA agreed with the IRS on six of the issues and disagreed with IRS on three of the issues.

Although Treasury agreed with the IRS that the Method B approach to conducting a price/technical tradeoff analysis was appropriate, the GSBGA rejected both the Method A and Method B approaches.

Simply put, the record does not support a finding that if the IRS had followed the Department of the Treasury's review findings, successful protests could have been avoided.

See comment 4.

C. The IRS Procurement Program

The IRS recognizes that the success of our Tax Systems Modernization (TSM) program is dependent upon many critical factors including a highly effective procurement program. The IRS has made significant improvements in its procurement program, as evidenced by its successes achieved since October 1990 and is continuing to make substantial improvements.

For example:

1. In November 1990, the IRS elevated its procurement program from a division level to the level of an Assistant Commissioner. It selected experienced procurement professionals for the positions of Assistant Commissioner and Deputy Assistant Commissioner. It has also increased its procurement staffing and has attracted numerous qualified and experienced procurement professionals from other agencies.

2. Since October 1990, the IRS has successfully awarded 21 federal information processing resources contracts in excess of \$1 million. Each of these was a competitive procurement. Each followed the same review process as TMAC. These contract awards involved many unsuccessful offerors who were effectively debriefed and chose not to protest.

3. Since October 1990, the IRS has realized successes on a number of "major" contract awards. For example:

a. The Integrated Collection Systems Contract was awarded on December 28, 1990 to IBM for \$325,000,000.

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b. The Integrated Systems Contract was awarded on December 11, 1991 to TRW for \$300,000,000.

c. Eight contracts were competitively awarded for the Department of the Treasury Telecommunication Systems during the period May 31, 1991 through December 23, 1991 in the total amount of \$254,876,778.

d. The Impact Printing System Contract was awarded to Control Data Corporation on February 5, 1991 in the amount of \$14,061,957.

4. Since October of 1990, TMAC is the only GSBGA or GAO protest the IRS has received, against a federal information processing resources contract award in excess of \$1,000,000. In the TMAC decision, the GSBGA found significant findings in favor of the IRS. In fact, the only issue that the GSBGA found with the TMAC procurement was with the price/technical tradeoff analysis. The GSBGA did not overturn the award but did return the procurement to the IRS for further analysis. The IRS is currently conducting this price/technical tradeoff analysis. A working group was established which consists of IRS personnel as well as external experts to conduct this analysis. This group will report their findings to a newly formed Source Evaluation Board by March 1992.

5. On November 15, 1991, the Treasury Department raised the procurement review threshold for the IRS from one million to three million dollars. This change was made as a result of a Treasury oversight review performed at the IRS which recognized the improvement at IRS in the management of acquisitions and in the quality of the IRS procurement program.

#### RECOMMENDATION

The subject report recommends that the IRS "develop guidelines--including appropriate methodologies and criteria--to be used in making price/technical tradeoff analyses, and require that these guidelines be made an integral part of the planning documents for all such procurements."

COMMENT: In light of the TMAC decision, we agree that additional guidelines would be helpful. Our review of the Federal Acquisitions Regulations and Federal Information Resource Management Regulations, our contacts with other agencies, and our discussions with GAO indicate to us that specific guidelines do not exist either in regulations or in procedures within the federal sector. We expect that the analysis currently being conducted on the TMAC procurement may well serve as a model for developing such guidelines for future procurements.

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GENERAL COMMENTS

See comment 5.

We would like to note that the TMAc award date was delayed due to several factors, some of which were beyond IRS control. Between the release of the RFP (1/89) and proposal submission (9/89), the IRS gave written answers to approximately 1,000 vendor questions regarding such subjects as standards and other parts of the specifications.

Between the receipt of proposals (9/89) and request for Best and Final Offers (3/91), the IRS resolved in writing over 1,000 discussion items. During the period between 11/90 and 3/91, approximately two months were devoted to obtaining proof that every hardware, software, and communication item of all offers, was in fact commercially available. This degree of validation was not originally anticipated. The time taken for these validations and evaluations was productive, as the GSBGA found no fault with the technical validations/evaluations, and not a single technical issue prevailed in the final analysis of the protest.

Footnotes on pages 5 and 8 of the report are incorrect regarding the composition of the Source Evaluation Board. When the Board convened in May of 1991, it consisted of the Chief Information Officer; the Assistant Commissioner (Information Systems Management); the Director, Office of Examination Programs; and the Assistant Director, Contracts and Acquisition Division. The new Source Evaluation Board consists of the TSM Program Manager; the Assistant Commissioner (Information Systems Management); the Director, Office of Information Resources Management, Department of Treasury; and the Assistant Commissioner (Procurement).

## GAO Comments

The following are GAO's comments on the Internal Revenue Service's letter dated February 3, 1992.

1. The absence of specific guidelines or a "cookbook" for agencies to follow on how to conduct a price/technical tradeoff analysis should not have precluded IRS from preparing its own. The size of the planned TMAC procurement and the emphasis on technical merits should have alerted the agency to the fact that such guidelines may be needed.

We disagree with IRS' contention that Treasury concurred with Method B of the price/technical tradeoff analysis as an acceptable analytical approach. The Treasury comments indicate that although Treasury believed this part of the analysis was better than Method A in attempting to establish the value of AT&T's proposal, it still had shortcomings. However, as we mention in Comment 3 below, the point we are making is that although parts of the analysis may have been better than others, sufficient questions were raised by Treasury to alert IRS that further actions were needed.

2. The statement was based on interviews with the following IRS officials: Chairman of the Source Evaluation Board; Assistant Commissioner, Procurement; and the TMAC Program Manager. We have modified the statement to clarify its source and to indicate that it was made retrospectively, considering the GSBICA's ruling.

3. The fact that GSBICA did not agree with certain Treasury comments is not relevant. Our report refers to the basis for the decision that the price/technical tradeoff analysis was inadequate. That GSBICA found the analysis more inadequate than Treasury is also not relevant. The point we are making is that Treasury's review comments strongly indicated that the analysis was inadequate and IRS chose not to change it. Treasury signed off on the contract but requested that IRS readdress the technical/price tradeoff analysis to ensure that concerns were adequately resolved. In its response to Treasury, IRS simply attempted to justify the analysis. According to Treasury officials, IRS' response was not adequate.

4. While we are not able to comment on the "significant improvements" cited by IRS in its procurement program, we note that failure to effectively direct and control even a few large procurements could adversely affect TSM. Such is the case with TMAC, which IRS recognizes is important to TSM.

5. Delays in the TMAC award date due to vendor questions have been addressed in the report. We revised the report to recognize that the award

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was also delayed due to the time necessary to obtain proof that hardware, software, and communication items contained in vendors' proposals were commercially available. We also modified the footnotes to reflect an updated composition of the Source Evaluation Board.

# Major Contributors to This Report

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